



MSME CONVERSATIONS

Shifting Gears: India's Auto Component Story

Guest Expert



Vinnie Mehta
Director General
ACMA

Index Experts



Dr. Sumita Kale
Principal Economist
Jocata



Mr. Narasimhan V.
Principal Advisor
Jocata

India's auto component industry closed FY26 with its best year on record.

In this edited conversation for SIDBI-Jocata Sumpoorn MSME Conversations, Vinnie Mehta, Director General of the Automotive Component Manufacturers Association of India, spoke with Dr. Sumita Kale and Narasimhan Venkatesan of Jocata about what that growth looks like underneath the headline number, and where it starts to strain. The conversation has been condensed and edited for clarity.

Sumita Kale: The Sumpoorn Index, which maps MSME sales activity every month, hit 0.65 in March this year, the highest reading in 44 months. We were expecting numbers to be lower given the risks out there, but they came in much higher than expected. April and May dipped a little, as usual, but June rose to 0.60. The index has shown a pickup in pace since last November. ACMA's own data shows FY26 industry turnover at ₹7.6 lakh crore, up 12.7%, and you're expecting 8 to 10% growth this year. What's the broader picture for the auto component industry, and what are the swing factors that could move that number below 8% or above 10%?

Vinnie Mehta: As you rightly pointed out, the entire automotive sector, vehicles and components both, has been doing very well since the GST rate cut. The component industry literally grows on the back of domestic vehicle sales, and we're also a strong, competitive exporter. In the year ending March 2026, we saw a record 5.6 million passenger cars produced, over a million commercial vehicles, 26 million two-wheelers, and more than a million farm tractors. Normally every one of those verticals is cyclical. What's unusual is that since the second half of last fiscal, all of those business cycles have converged and started moving north together. That's genuinely unprecedented.

We ended the fiscal at over ₹7.5 lakh crore in turnover. Exports also did well, growing 5% to \$24 billion, despite the Trump tariffs and the wars going on. Part of that is a very strong China+1 effect. Global customers are increasingly worried about rare-earth magnet curbs and battery-technology curbs coming out of China, and some newer RFQs increasingly seek greater visibility into, and diversification of, the entire supply chain—not just the final product. That's a huge opportunity for India to localise and scale up.

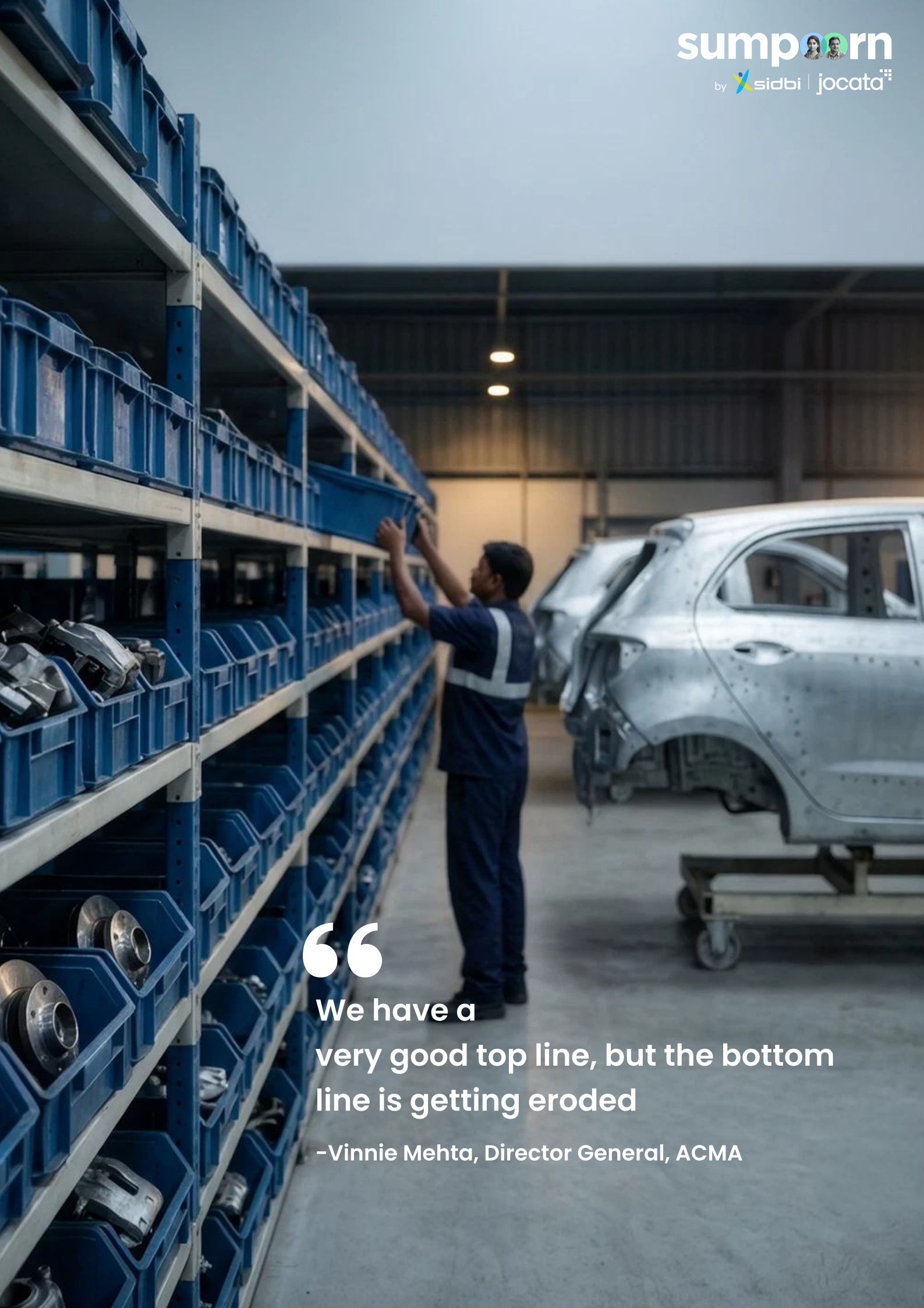
Sumita Kale: Before we get into trade, I wanted to ask, do you see any risks this year?

Vinnie Mehta: The principal risk is the continuing unpredictability of geopolitics. That's why I keep coming back to resilience, even though it's become a bit of a cliché for us. What I'm genuinely happy about is that through this entire upcycle, not one vehicle manufacturer has come back to us saying, we could have grown more, but for the component sector. We've been able to support the vehicle industry fully, and I'm proud of that. But you'll have seen the cost pressure showing up in results across the industry. We have a very good top line, but the bottom line is getting eroded. That's a concern, because in a healthy industry both should be growing. A lot of that is the war, raw material costs from West Asia going up, a labour shortage that's marginal but real, energy costs up, logistics costs up. We've managed so far, fingers crossed.

Narasimhan Venkatesan: You mentioned \$24 billion in exports, which is a real achievement, but on the import side we're at \$25.5 billion. And exports grew 5% while imports grew 13%, almost a two-and-a-half-times delta, which is a concern if we want to export more and produce more domestically. If I'm recalling correctly, and I'd stand corrected, almost 30 to 32% of these imports come from China. That seems to run against the exact "no China linkage" story you just described from the customer side. How does that reconcile inside your own ecosystem, and how is ACMA helping members gear up for it?

Vinnie Mehta: There's no single answer, but let me try. First, as an industry and as a country, we're committed to localisation, full stop. We're a genuine success story of small and medium enterprises, and we're proud of that. Second, with the rupee depreciating as fast as it has, nobody actually wants to import right now, it only erodes margins further. So why does import happen at all? Sometimes it's purely technological, when a new technology is young, volumes are too small to justify local investment. Sometimes it's the cost and availability of capital. While a strong company might borrow at around 8%, a genuinely small enterprise can find it difficult to secure affordable funding. Our national R&D spend is under 1% of GDP, around 0.75%, and the auto component industry spends about the same. That's a real constraint on how fast a small manufacturer can move up the technology curve. Sometimes it's just scale. China produced 30 million cars and 4 million commercial vehicles last year. We produced about 5.6 million passenger vehicles and over a million commercial vehicles. We're one company competing against an entire country's industry. And sometimes it's a deliberate multinational strategy, a mother plant for one part in India, another out of China, supplying globally from both. Then there's geopolitics layered on top of all of that. Take rare-earth magnets.

We used to import the magnets and manufacture the motors here in India. Now China's export controls and licensing requirements have disrupted the availability of these magnets, while finished motors remain available. So we've ended up importing a much higher-value item, and we've lost the opportunity of making the motor domestically. We're working on magnetless motor designs, and on lighter rare-earth alternatives that aren't under curbs. But it tells you something: in some emerging technologies, we are still building indigenous capability, which can make us reactive rather than in control of the timeline.



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–Vinnie Mehta, Director General, ACMA

Narasimhan Venkatesan: Two follow-ups on the export-import picture. First, on Europe. We've welcomed the EU FTA, and it looks good for the sector on paper. But if I look at Germany specifically, there are worrying signals, Volkswagen, Stellantis, BMW, Audi, either cutting production or pausing it somewhere.

Vinnie Mehta: Layoffs too.

Narasimhan Venkatesan: Exactly. And given that close to 29.5% of our exports go to that destination, is that a concern, and how does the industry deal with it? Or, flipping it, is it actually a signal that manufacturing is moving out of those markets toward India, which would be an opportunity for our component makers to become the export hub on Europe's behalf?

Vinnie Mehta: Let me take the FTA point first. We've been a strong advocate for FTAs, whether it was the US, the European Union, the UK CETA, or the terms of reference signed just yesterday with the SACU (Southern African Customs Union) region in South Africa. We've supported these knowing full well that other countries' tariffs were already lower than India's, so signing an FTA means India lowers its own duties too, and that carries some import risk. But we believe we're competitive enough, and the automotive industry is a genuinely global one, so export and import go hand in hand. We'd rather stay net foreign-exchange positive and keep growing that number than avoid imports altogether, you can't run a one-way street if you want to export.

The EU slowdown is real, and it stems from several things at once: the Russia-Ukraine war hit Europe directly, energy costs went up sharply once Russian supply to Germany stopped, and that's held across the UK and other European geographies too.

A lot of the big German companies had heavy China exposure, and the Chinese market has shifted to buying almost exclusively Chinese brands now, European makers didn't transition to electric as fast as Chinese manufacturers did, in fairness nobody did, so that profitability has largely dried up. On top of that, the domestic European market isn't doing well either, and they had heavy export exposure to the US that's now under pressure from Trump's tariffs. So the European auto industry is under real strain on multiple fronts, and that's pushing them to want to source more from India. We're engaging directly with top vehicle makers who want private tech shows, closed exhibitions where we display exactly the components they're looking to procure. I believe the India-EU agreement can support precisely that objective: helping companies diversify and de-risk their supply chains. That's precisely why we push for FTAs even knowing our duties are higher today, because over time they come down, and yes, we want better market access. But honestly, what we're hungriest for is technology. Several European component manufacturers have built substantial and successful operations in India. What we want from the EU isn't just orders; it's a deeper technology presence. That's how the ecosystem actually levels up.

Narasimhan Venkatesan: My second follow-up is on EV component penetration. I've seen a figure putting EV components at around 4.6% of total supply. I'm not a technology person, but a lot gets eliminated in that shift, the engine block and pistons, the drivetrain, the multi-speed gearbox replaced by a single-speed unit, fuel systems replaced by charging ports, exhaust systems gone entirely.

Vinnie Mehta: Engines, the whole drivetrain.

Narasimhan Venkatesan: Right, and the powertrain changes because power electronics take over, HVAC requirements shift, the fuel tank disappears. Given all of that, and given R&D is limited and the cost of capital is high, 8 to 11% as we've discussed, how does the component industry actually gear up? Are manufacturers doing this alone, or are OEMs stepping in with funding and support?

Vinnie Mehta: It's a fair question, and one we get often. When EVs first arrived here five or six years ago, the industry naturally had concerns about the implications for conventional component manufacturers and employment. Since then, the industry has adapted rapidly, and the way the market has actually played out has helped. Last year we produced about a million EV two-wheelers out of 26 million total. On cars, roughly 100,000 EVs out of 5.6 million produced, we might double that this year, but the addressable opportunity for an individual MSME remains relatively small. From a component maker's perspective, that slice is still tiny, and it gets split further across multiple vehicle makers and suppliers within each. Per company, the opportunity is a very, very thin slice, not exciting enough on its own for an individual small manufacturer. What works in the industry's favour is that our Tier-1s are already world-class, most are listed, well-governed, and technologically ready, because a lot of EV technology can genuinely be bought off the shelf. The government's own vision is 30% EV penetration by 2030, without a published split by vehicle category. Commercial vehicles look more mixed, viable for smaller entry-level trucks, less so for long-haul, where hydrogen may end up being the better answer globally, while electric buses are doing well since that's largely a municipal/localised procurement decision.

The bigger point is about time. India's net-zero target is 2070, while the European Union is targeting 2040 and Japan 2050. India's transition pathway will necessarily be different from that of developed economies, giving us the runway for an orderly and inclusive transition. Multiple powertrains, electric, hybrid, ethanol and other biofuels, will keep coexisting, and the economics and cost of ownership will decide which wins where. There's a boundary condition too: as efficiency norms tighten, moving from BS6 toward BS7, from CAFE2 to CAFE3, that naturally pushes the market toward more efficient vehicles over time. Even as EV penetration increases, conventional and alternative-fuel powertrains will continue to represent a substantial market for several years, while the overall vehicle market itself continues to expand. A lot of countries will hit their own EV transition before India does, but they'll still have a large installed base of conventional vehicles that needs servicing. We see an opportunity for India to become a globally competitive manufacturing and servicing hub for conventional powertrains even as it builds capabilities in new mobility technologies.

Sumita Kale: This conversation has been really a great learning, thank you for giving us the time. It's been a pleasure and a privilege to talk today with you.

Vinnie Mehta: Sure, take care.

Narasimhan Venkatesan: Thank you so much. Have a good day.